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RECONCILING THE IRRECONCILABLE

BOOK vs. TAX ACCOUNTING

by Eli Gerver

Accounting has been called the language of business because business facts and events are collected, classified, and reported in accordance with accounting principles and procedures and in accounting terms. Under any basis of comparison, accounting for income tax purposes differs considerably from accounting for financial accounting purposes. Indeed, we could easily say that while accounting is the language of business, something gets lost in the translation when we are determining taxable income.

Actually, the basic tax accounting rule is to follow the books. Section 446 of the Internal Revenue Code provides:

Taxable income shall be computed under the method of accounting on the basis of which the taxpayer regularly computes his income in keeping his books.

This would suggest that book and tax accounting should be the same—and in many instances they are the same. But it can easily be seen that book accounting provides only a starting point in the determination of taxable income.

Much has been made of the differences in the profession on defining accounting principles, and while there may be sympathy for eliminating differences between book and tax accounting, the government attitude may well be represented by the views of Judge Clark of the Second Circuit:

I think that within limits the trend to follow accounting ideas is desirable as bringing tax and business practices mutually into line. But I do feel it must stop short of delivering control of the revenue to the accountants. For accounting is not an exact science; and corporate balance sheets must deal with many fluid items, representing of course much factual information, but also a certain amount of prophecy, of hope, and of sheer argumentation.¹

Accountants would be the first to agree that financial accounting is not a precise science. The auditor's report which expresses an opinion on financial statements will usually note that the statements "present fairly" the financial position and results of operations. This is in recognition of the fact that in the determination of income, decisions have been made based on judgment, and measurements have been made which may be only approximations.

Congress has given the Internal Revenue Service the right to substitute its own judgment for the taxpayer's, if, in the opinion of the Service, the taxpayer's method of accounting does not "clearly reflect income." It is fruitless to discuss whether Congress intended or not to require more precise rules for determination of income by using the phrase "clearly reflect" as opposed to "present fairly." The fact is that accounting for tax purposes frequently results in serious distortions of income determination. One government official has explained the philosophy behind taxation of receipts as opposed to income:

... the requirements of the income tax system are not always the same as the requirements of good accounting. I think we can all understand the desirability, in the administration of the tax system, of collecting taxes from one who receives 10 years rent in advance in the year of receipt. This is the time at which the funds are most certainly available to pay the tax.²

Changing Accounting Methods

The speaker also noted the latitude permitted taxpayers under accounting principles and suggested that this latitude should not be acceptable for tax purposes. But there are many permissible variations within our tax structure which provide the flexibility necessary for dealing with the widely varied needs of the business community in problems of income determination. Rigid rules rarely bring the desired results, only unintended benefits and hardships.

Accepting the thought that it is desirable to be able to change accounting to meet changing circumstances or differing facts, let us pause to consider the flexible character of accounting. I propose to discuss, not the formidable task of the Accounting Principles Board, but rather, the mechanics of change once the need for change is recognized. Needless to say, recognition of that need may be the greatest problem of all.

In financial reporting, it is necessary to measure the effect of the change and, if material, to make appropriate disclosure. The accountant's opinion will give appropriate recognition of the change. The decision to change is made by management with the advice and approval of the company's auditors.

In taxation, a change in accounting frequently is quite a complex matter and may be delayed by forces beyond the control of the taxpayer. As always, the first step would be recognition of the need for change. It is not enough for the company and its advisors to accept the idea of change. It is also necessary to secure the consent of the Internal Revenue Service, and this is a far-reaching requirement. It is not a matter of how erroneous the old method may be; the fact that a change is to be made generally requires that permission be sought.

The granting of permission is pretty much at the discretion of the Service. It is possible that an unpermitted change may be accepted knowingly or unknowingly, but the Internal Revenue Service clearly has authority to reject changes to which it has not consented. Furthermore, although the Regulations state that this shall be

required only for a change in a material item, the courts have not applied the professional accounting concept of materiality but instead appear to look at absolute dollars of tax effect. Thus, a change which would not require any disclosure for financial accounting still may require permission before it may be used for tax purposes.

The decision for a change in financial accounting may be made at the end of a year and incorporated in the financial statements, with appropriate restatement of prior year earnings where comparative figures are provided. The timing of a tax change is not simple or, at best, was not so until 1964. Prior to that date permission had to be requested for any change in accounting, within the first 90 days of the year.

Although this rule applied only to changes in the accounting method for a material item, there was difficulty in distinguishing between a change of method (which would require permission) and the correction of an error (which would not require permission). For example, if an accrual basis taxpayer accounts for property taxes when paid and wants to change to accrual accounting, is this a "change of method" or "correction of an error?"

In addition to the question of permission, there are differences in treatment of the effect of a change as opposed to an error. A change provides numerous possibilities, ranging from spreading the effect over a period of years to complete exemption from tax; correction of error is always in the year corrected.

Rev. Proc. 64-16 introduced the concept of a change in accounting practice. If such a change is to be made, permission may be requested at any time up to the due date for filing the return (including extensions) of the first year to which the new method applies. The 64-16 approach does not affect the basic rule that permission must be sought, but only the timing for requesting permission.

For certain changes, permission must still be requested within the first 90 days of the year to which the change applies. But even here, procedures have been modified to simplify the processing. Whereas in the past you waited for approval of the request, it is presumed unless otherwise advised that permission has been granted when a timely request is made for a change in the accounting for bad debts; a change from cash to accrual accounting; or any change in depreciation methods.

The experience of recent years indicates a willingness

on the part of the Service to permit changes of accounting. Actually, the taxpayer's problem is not so much in obtaining permission, but rather, in recognizing those situations where permission is needed. It is necessary in analyzing the effect of financial accounting changes to consider whether permission should be sought for tax purposes. For example, suppose financial accounting is changed so that the amount of manufacturing overhead to be included in inventory is increased. In all likelihood, permission would be necessary if overhead had never been included, but a change in rate should not require permission, just as a change in depreciable lives should not. The Tax Court has decided that permission is not required for a change in the manner of computing income from property for purposes of the limitation on percentage depletion.³ The liberal timing rules under Rev. Proc. 64-16 are of considerable value in this regard, since all too frequently the fact of a change may not be recognized until the end of a year, or may not be considered as appropriate for financial purposes until then. Our experience indicates that even where permission is sought just before filing the return, the Service will permit the filing of the return on an as-if-approved basis and then process the request.

Another interesting aspect of the procedure is its use in deferring the effect of a change sought to be imposed by the Revenue Service. Upon appropriate request to the National Office, field action on an audit can be suspended and the proposed change will be made in the return most recently filed; the change will be made with full availability of provisions for spreading the effect of the change over a ten-year period.

Change in Books Without Tax Change

It has been noted earlier that book accounting is the starting point for the determination of taxable income. The general rule is one of conformity, i.e., the tax method of accounting shall be the same as that used for books. For a measure of protection, an additional rule of consistency is imposed, i.e., accounting shall not change from year to year but shall be the same.

Obviously, it is possible for a taxpayer to change his book accounting, and the result is a conflict between the conformity and consistency rule. The taxpayer can no longer have conformity between book and tax unless he violates the consistency rule. As to this, he can obtain permission to make the change so that the Service

will permit the consistency rule to be broken. However, there is no requirement that the taxpayer request IRS approval for changes in his accounting, unless he seeks to make such change for tax purposes as well.

It is possible for a taxpayer to change his books radically but request no corresponding change for tax purposes. For example, a taxpayer could keep his books and file returns on the cash basis but subsequently change to accrual accounting in his books. He is not required to make such change for tax purposes and may continue to file returns on the cash basis, provided that method clearly reflects income. The courts have so held in the case of an engineering partnership,⁴ and the Internal Revenue Service has accepted this view in the case of banks.⁵ In such cases, it would be desirable (and perhaps necessary) for the taxpayer to maintain reconciling records.

Change in Tax Probably Requires Book Change

Although it does seem possible to change the books without a corresponding tax change, the general practice today of IRS would appear to require that there be a book change when permission is sought for a tax change. No particular reason is cited for this position, but it clearly is within the authority of the Service to set the terms upon which permission will be granted, and this is one of the terms.

Whatever the basis for the requirement, it exists in the case of a change of accounting method or practice. Where booking is not possible because of a conflict with rules of a regulatory authority, taxpayers have been able to convince the Service not to impose the booking requirement.

Suppose the conflict is with generally accepted accounting principles. Financial statements still could be presented on a correct basis, but some footnote disclosure may be necessary to show that the statements do not agree with the books.

The requirement for booking is found in a few other instances, and where it is present, it tends to be quite rigid. Taxpayers using LIFO must use such method in any financial statements to creditors or stockholders. Actually, this does not require any change in bookkeeping procedures and most LIFO users merely make an adjustment for inventory values by use of a special reserve account which restates on a LIFO basis what might otherwise be a FIFO inventory. The effect on earnings

can be revealed when LIFO is used so that the sophisticated reader of a financial statement could determine what earnings would be if FIFO were used. Another variance permitted in this area is that market values, where less than LIFO cost, may be used. It also is possible to have a subsidiary use LIFO and report to its parent on that basis, but in consolidation, the inventories may be converted to FIFO.⁶ In general, however, the Internal Revenue Service looks dimly upon attempts to show within the body of a financial statement, as a line item, earnings on a FIFO basis with some adjustment to convert to LIFO.

Taxpayers using a reserve for bad debts are required to maintain ledger accounts, and any additions must be booked within a reasonable time if the deduction is to be allowed. In all likelihood, this should not be done any later than a few days after the return is filed.⁷

One additional area should be mentioned where book accounting is extremely important to achieve a particular tax result. A dealer in securities will be permitted capital gain treatment on an investment, but he must designate it in his records as an investment, and this must be done within 30 days after acquisition.⁸

Elective Differences Between Book and Tax

We have been reviewing areas of conformity between book and tax accounting. What are the differences? Generally, they fall into two categories—differences related to timing and differences related to whether or not an item of income or expense should be considered in determination of taxable income. This identification of differences between book and tax accounting is particularly important in items of financial accounting for income taxes. Alternatively, differences may be identified as those adopted by the taxpayer and those imposed upon the taxpayer by the Code, the Internal Revenue Service and the Courts.

Just as there are some accounting methods which must conform to book accounting, there are a few where conformity is not required, but it is only necessary to be able to reconcile the tax return to the books.

A taxpayer who regularly sells on the installment method may, at any time and without advance permission, adopt the installment method. He may continue to use accrual accounting for financial purposes and must maintain sufficient records to permit verification of installment income as opposed to accrual income.

The 1954 Code gave official sanction to several methods of depreciation which result in recovery of cost at a far more rapid pace than the traditional straight line method, which allocates the cost of depreciable property ratably over the life of the property. There is no requirement that the more rapid methods of depreciation be used for book purposes, and it is probable that many taxpayers have continued to use straight line depreciation for books and one of the rapid methods for tax.

The regulations contemplate that these differences will exist and although expressing preference for maintenance of reserve accounts, they provide for the maintenance of permanent auxiliary records for reconciling differences between book and tax depreciation reserves.

The Service has accepted the difference between book and tax depreciation. It has asked that the taxpayer do the same. Thus, taxpayers who include depreciation as part of the burden in valuing inventory were asked by IRS to use tax depreciation. The result would be not only a difference between book and tax depreciation, but a difference between book and tax inventory. This particular problem has not been reviewed by the courts, although there may be cases pending. It is our present understanding that IRS has not continued to press the issue.

There are a number of specific rules permitting taxpayers to elect to deduct for tax purposes amounts which otherwise should be capitalized. These elections are varied in character and in some instances may be adopted at any time; others must be adopted when the expenditure is first incurred. Some relate to a limited period, others are continuing in nature. It is not necessary to discuss these in detail but only to recognize that these rules represent statutory authorization for differences between book and tax depreciation at the option of the taxpayer.

Imposed Differences Between Book and Tax

Let us now consider differences between book and tax accounting which are imposed by the government. These may be imposed for reasons of public policy and are commonly found in situations relating to disallowance of deductions which may be appropriate for financial accounting. One notable exception to this would be the allowance of percentage depletion which permits recovery of more than the cost of a wasting asset, pre-

sumably on the theory that the irreplaceable nature of the wasting asset justifies such treatment, but it would seem that this is only because as a matter of policy the government has decided to provide this deduction either as an incentive or as a subsidy.

In 1958, the Congress decided that if it were improper to deduct as business expense payments to government officials in this country, similar rules should apply to payments made to officials of foreign governments. It was commented at the time that this was imposing upon other countries United States concepts of morality and propriety. The committee reports on this subsection would seem to bear this out, as Congress was advised by the Internal Revenue Service that where the foreign government demands or acquiesces in a bribe or kick-back to an official, there was no basis for disallowance. Congress decided that irrespective of the foreign government's position, such payments should not be allowed. Obviously, the U. S. tax consequences will not deter a foreign government or official from requiring payments as a condition to doing business. It may not be an expenditure of which one is particularly proud, but it is an expense for financial accounting and just not deductible for tax purposes.

The interaction of the income tax and other statutes based on public policy leads to some interesting results. Several years ago, the Supreme Court announced several opinions to the effect that ordinary and necessary expenses of a clearly illegal business were deductible, but that fines imposed upon a legitimate business were not deductible, as this would frustrate the clearly defined public policy of the jurisdiction which imposed the fine.⁹

The illegal business was that of a bookmaker. The Court recognizing the *sub rosa* character of his business declined to impose a tax on gross receipts and permitted deductions for supported expenses such as rent, salaries to assistants, etc.

The legitimate businesses were trucking. The fines imposed were for overloading of trucks so that the weight exceeded permissible load limits on state highways. The trucks in question traveled across state lines so that on a single trip, trucks would encounter different load limits, and economically it was more feasible to run the risk of a fine, than to use more trucks or reload.

No discussion of business expenses disallowed would be complete without at least mention of travel and en-

tertainment. It certainly is not proposed to delve into these rules in detail but it seems appropriate to note that the present rules on T & E, including substantiation, directly related tests, etc., could represent an expression of public policy and the extent to which it could be appropriate or inappropriate to permit an "expense account economy." Whether or not this view is accepted, it is generally recognized that even prior to enactment of Section 274, the Service would not permit a deduction for entertainment of government officials.

The items we have been discussing are essentially differences between book and tax where the item in question never enters the income stream for tax purposes. By far, the more troublesome areas are not these, because whether or not we agree with the policy responsible for the tax treatment, we recognize the rule for its absolute character and accept it. To my mind, it is far more disturbing to encounter the distortions caused by the differences in timing the recognition of an item of income or expense.

Taxation of Advance Receipts

Possibly the most spectacular and most irritating area of timing differences imposed by the Internal Revenue Service is in the taxation of advance receipts. In recent years, the Service has had considerable success in its position that in the absence of specific Congressional approval, advance receipts are taxed currently. The Service's approach is completely contrary to generally accepted accounting principles, but it has been fundamental in income tax accounting.

In an early case, the Supreme Court enunciated what is referred to as the claim of right doctrine:

... if a taxpayer receives earnings under a claim of right and without restriction as to its disposition, he has received income which he is required to return, even though it may still be claimed that he is not entitled to retain the money, and even though he may still be adjudged liable to restore its equivalent.¹⁰

The Court referred to the receipt of *earnings*, but this has been freely extended to the receipt of cash or other property. The fact of future liability for services or goods to be delivered has no effect because of another rule—the "all events rule" which denies a deduction until all events necessary to determine the liability have occurred.

When the 1954 Code was in the legislative process,

considerable testimony was presented to Congress on the problems of tax compliance by business in a system based on tax concepts of accounting as opposed to generally accepted accounting principles. The American Institute of Certified Public Accountants (or as it was then known, the American Institute of Accountants) presented a well documented report analyzing numerous problem areas. The response of Congress was most gratifying, and Sections 452 (permitting deferral of prepaid income) and 462 (permitting reserves for estimated expenses) were enacted. The business community was pleased, but a storm of criticism and estimates of revenue loss ranging from \$500 million to billions of dollars caused the Treasury to request complete and utter repeal of these provisions to put the law back to where it was, as though the sections were never enacted. Congress, in so doing, suggested that it would return to the problem at some later date, which almost 15 years later, has not yet arrived.

After the repeal of Sections 452 and 462, it appeared for a brief period that the courts were solving the problem by permitting taxpayers to support deferral of income and accrual of expenses based on accounting records. A newspaper publisher was permitted to defer subscription income.¹¹ A furnace dealer was permitted to accrue certain expenses in servicing furnaces sold.¹² Although the Supreme Court then held that an automobile club could not defer its dues, the facts were such that the Court could base its opinion on a finding that the deferral method was arbitrary.¹³ A television dealer was permitted to defer service contract income by showing statistically that its method of deferral was not arbitrary,¹⁴ although another dealer whose case was heard in another circuit was unsuccessful.¹⁵

In another automobile club case, the issue went to the Supreme Court again and whatever accounting may have won before was lost.¹⁶ The Court would not permit the deferral of prepaid income, ostensibly on the basis that the deferral technique was no less arbitrary than that in the earlier auto club case. But the Court went further and pointed out that although the method used might well be in accord with generally accepted accounting principles, that did not mean it clearly reflected income so as to be binding on the Treasury. The Court commented on the inadequacy of the method used, and reviewed the sorry history of Sections 452 and 462. The Court concluded that the repeal of these provisions

made it clear that Congress did not intend to permit deferral of income for tax purposes except in specific situations. The Court went on to disclaim any intent of judicial legislation in this area:

At the very least, this background indicates congressional recognition of the complications inherent in the problem and its seriousness to the general revenue. We must leave to the Congress the fashioning of a rule which, in any event, must have wide ramifications. The Committees of the Congress have standing committees expertly grounded in tax problems, with jurisdiction covering the whole field of taxation and facilities for studying considerations of policy as between the various taxpayers and the necessities of the general revenues. The validity of the long established policy of the Court in deferring, where possible, to congressional procedures in the tax field is clearly indicated in this case. Finding only that, in light of existing provisions not specifically authorizing it, the exercise of the Commissioner's discretion in rejecting the Association's accounting system was not unsound, we need not anticipate what will be the product of further "study of this entire problem."

Congress then stepped up to the problem of automobile clubs and approved specific legislation permitting membership organizations to defer income. This action did little more than demonstrate the importance of a good lobby in obtaining tax relief. Instead of attacking the entire problem of deferred income, Congress just chipped at it, and the next case to come before the Court could do little more than present the same arguments as earlier taxpayers had.

The case involved a dance studio and its accounting for deferred income. Again, substantial evidence was introduced as to commercial accounting, including an *amicus curiae* brief submitted on behalf of the American Institute of CPAs. The Court again found the deferral method to be inexact, and while acceptable for financial accounting, it was not acceptable for tax.¹⁷

Actually, none of these cases hold that advance receipts are taxable in all instances but that deferral will not be permitted where the basis for deferral is purely an arbitrary time period. A recent case gives cause for some hope. Deferral of advance receipts was permitted where the receipts were for admission to major league baseball games scheduled for later dates, including television and radio broadcasting, parking fees, etc. The government argued that there was an "established rule that an accrual basis taxpayer must include in gross income in the year of receipt prepaid items . . ." For-

unately the Court agreed with the taxpayer: "... there must be situations where the deferral technique will so clearly reflect income that the Court will find an abuse of discretion if the Commissioner rejects it."¹⁸ The case was returned to the lower court for a determination of the reasonableness of the deferral technique used.

The ultimate decision, if for the taxpayer, would be quite important. For if advance receipts for baseball games can be deferred with accuracy, why not rent or interest? On the other hand, perhaps the television dealer who based his deferral on an analysis of experience probably would not fare as well, because the Court decision seems to require an exact deferral method, as opposed to one of reason.

The Supreme Court cases have all involved income from services. But in recent years, cases of income from the sale of tangible property have arisen and fared no better. A retail clothier has been held taxable on advance payments for the sale of clothing.¹⁹ A manufacturer of display signs receiving what are essentially progress payments was held taxable in the year of receipt.²⁰

The question of advance receipts presents, particularly in the area of receipts for goods, an interesting opportunity for tax planning. It should not be assumed that the Service will move in and tax all advance receipts. This is not likely if there has been a history of deferral, particularly if there would be a substantial deferral as of January 1, 1954 or a comparable fiscal year date. The reason is that an attempt to tax advance receipts probably would be a change of accounting method initiated by the government, and an amount equal to the deferred income at January 1, 1954 would escape tax completely, irrespective of the year in which the change is made.²¹ This may act as a deterrent to aggressive government action in many cases. The impact of change where it is made can be softened to some extent by resorting to the change of accounting rules discussed earlier.

Finally, consideration should be given to other accounting procedures, at least in the area of sale of goods, to use of the installment method of accounting. This would permit some deferral provided the terms of sale call for more than one payment.

The estimated expense approach has not been raised in many of the deferred income cases, although obviously it is a companion issue. Taxpayers have not fared any better here. The Supreme Court considered only one case in recent years on this point, involving an estimate

of liability for claims against a bus company. A decision in favor of the taxpayer was remanded on the same day as the last automobile club case, and the Court referred to its views in that case, presumably meaning the long-standing practice of disallowing estimated expenses and the refusal of Congress to take action after repeal of Section 462 on estimated expenses. The Circuit Court to which the case was returned then found for the government. Other recent cases have followed this approach. Those few cases which were decided for the taxpayer in earlier years have been either distinguished or ignored.

Deferred Tax Accounting

It has been generally recognized for some time that the many situations giving rise to a difference in book and tax accounting must be reflected in financial accounting. This practice is known as interperiod allocation and was developed for significant expenses which were deducted in tax returns before being accrued in the accounts. For example, during World War II when the cost of emergency facilities was amortized for tax purposes over five years and depreciated for accounting purposes over, say, 15 years, the lower taxes in the first five years were offset by increased taxes in the next ten years. The difference in timing was recognized in net income each year as if depreciation in the tax return were the same as in the accounts. Expenses representing future taxes or additional depreciation were recorded in the first five years and reversed in the remaining years to match expenses and their tax effects. The related balance sheet items were similarly recorded as deferred tax or accumulated depreciation.

The Accounting Principles Board has concluded that the principle of tax allocation should be applied to the tax effect of all items of revenue and expense entering into the determination of pre-tax income for financial accounting. The tax effects of those transactions which enter into the determination of pre-tax accounting income either earlier or later than they become part of taxable income, should be recognized in the periods in which the differences between pre-tax accounting income and taxable income arise and in the periods in which the differences reverse. Since permanent differences do not affect other periods, interperiod tax allocation is not appropriate to account for such differences. This does not eliminate differences between book and

tax accounting but rather assures that the differences are reflected in the financial statements.²²

Is Conformity Desirable?

A commonly asked question is whether there ever will be a day when book and tax accounting will conform. It would seem that as long as our tax laws are used to provide incentives and subsidies, that complete conformity is not possible. Many of these incentives and/or subsidies only give rise to the so-called permanent differences which alternatively could be considered as resulting in a lower effective tax rate. When we talk of conformity between book and tax accounting, are we suggesting the elimination of accelerated depreciation or perhaps that it be allowed only if booked? This is doubtful.

If anything, a booking requirement to obtain tax benefits probably would be destructive of good accounting and would virtually transfer to Congress and the Treasury Department control over financial accounting. Taxpayers would use installment accounting for books if needed for tax purposes, although such method is not proper financial accounting if there are no problems on collection of sales price. While companies concerned with maintaining an earnings record might be willing to forego tax benefits of installment accounting if the price were reduced financial earnings, can we be confident that the pressure for acceptance from other businesses

would not be so great as to result in acceptance of installment accounting? Would LIFO be as common in financial accounting but for its acceptance for taxes?

Possibly the greatest concern in the conformity area is in advance receipts—estimated expenses. The greatest block to any relief in this area is the same which caused repeal of Sections 452 and 462—the revenue loss. Although references can be found in comments of Treasury officials to the lack of acceptable standards in the accounting profession for estimated expenses and deferral of income, it is probable that the revenue effect is more serious. In recent years, the Treasury has given consideration to a new approach in legislation on accounting matters suspending the effect of any change for the life of the taxpayer. A more acceptable approach would be to follow the well defined procedures for change in accounting, i.e., to require that the effect of change be deferred over, say, a ten-year period.

I feel that practitioners should continue to work toward the day when there will be greater conformity. This is not to suggest that we should not seek planning opportunities based on those differences between book and tax which work to a taxpayer's advantage. Some day perhaps the government will acknowledge the superior competence of the accounting profession in the determination of income and will cease to substitute its "sporadic omnipotence in a field beset by invisible boomerangs."²³

¹ *Consolidated Edison Co. of New York*, dissenting opinion, 60-2 USTC 9485.

² Kurtz, Tax Legislative Counsel, U. S. Treasury Dept. (Johnson Administration), *Remarks before the 1968 Annual Convention of Ohio Society of CPAs*.

³ *North Carolina Granite Corp.*, 43 TC 149 (1964).

⁴ *Patchen*, 258 F2d 544 (5 Cir. 1958).

⁵ Rev. Rul. 68-35; Rev. Rul. 68-83.

⁶ Rev. Rul. 69-17.

⁷ Rev. Rul. 68-410.

⁸ Sec. 1236.

⁹ *Sullivan*, 58-1 USTC 9368.

¹⁰ *North American Oil Consolidated*, 3 USTC 943.

¹¹ *Beacon Publishing Co.*, 218 F2d 697 (10 Cir. 1955).

¹² *Schuessler*, 230 F2d 722 (5 Cir. 1956).

¹³ *Automobile Club of Michigan*, 353 US 180 (1957).

¹⁴ *Bressner Radio Inc.*, 267 F2d 520 (2d Cir. 1959).

¹⁵ *Streight Radio & Television*, 280 F2d 883 (7 Cir. 1966).

¹⁶ *American Automobile Assn.*, 367 US 687 (1961).

¹⁷ *Schlude*, 372 US 128 (1963).

¹⁸ *Artnell*, (7 Cir. 9/19/68).

¹⁹ *Farrarra*, 44 TC 189, (1965), *Garber, Inc.*, 51 TC No. 72 (1969).

²⁰ *Hagen Advertising Displays*, 69-1 USTC 9254 (6 Cir.).

²¹ Space does not permit discussion of the full impact of this point here, but under sec. 481 of the Internal Revenue Code, adjustments required in connection with a change of accounting will not be taxed to the extent the adjustment is equal to that which would have been made at January 1, 1954, if the change is initiated by the government. See Gerver & Griffin, *Changes in Accounting Methods*, Tax Executive, July 1965, 290.

²² Opinion 11, Accounting Principles Board (AICPA); see also *Bevis and Perry, Accounting for Income Taxes* (AICPA 1969).

²³ *Arrowsmith* 52-2 USTC 9527, dissent of Justice Jackson.